

HOUSE FINANCE COMMITTEE
March 27, 2006
2:09 p.m.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [2:09:39 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Mike Hawker
Representative Jim Holm
Representative Reggie Joule
Representative Mike Kelly
Representative Richard Foster
Representative Carl Moses
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Beth Kerttula

ALSO PRESENT

Dan Dickinson, Consultant, Tax Division, Department of Revenue; Robynn Wilson, Director, Division of Tax, Department of Revenue; Roger Marks, Petroleum Economist, Economic Research Section, Tax Division, Department of Revenue

PRESENT VIA TELECONFERENCE

William Corbus, Commissioner, Department of Revenue

SUMMARY

HB 488 "An Act repealing the oil production tax and gas production tax and providing for a production tax on the net value of oil and gas; relating to the relationship of the production tax to other taxes; relating to the dates tax payments and surcharges are due under AS 43.55; relating to interest on overpayments under AS 43.55; relating to the treatment of oil and gas production tax in a producer's settlement with the royalty owner; relating to flared gas, and to oil and gas used in the operation of a lease or property, under AS 43.55; relating to the prevailing value of oil or gas under AS 43.55; providing for tax credits against the tax due under AS 43.55 for certain

expenditures, losses, and surcharges; relating to statements or other information required to be filed with or furnished to the Department of Revenue, and relating to the penalty for failure to file certain reports, under AS 43.55; relating to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue, under AS 43.55; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the oil and gas production tax; relating to the deposit of money collected by the Department of Revenue under AS 43.55; relating to the calculation of the gross value at the point of production of oil or gas; relating to the determination of the net value of taxable oil and gas for purposes of a production tax on the net value of oil and gas; relating to the definitions of 'gas,' 'oil,' and certain other terms for purposes of AS 43.55; making conforming amendments; and providing for an effective date."

HB 488 was heard and HELD in Committee for further consideration.

HOUSE BILL NO. 488

"An Act repealing the oil production tax and gas production tax and providing for a production tax on the net value of oil and gas; relating to the relationship of the production tax to other taxes; relating to the dates tax payments and surcharges are due under AS 43.55; relating to interest on overpayments under AS 43.55; relating to the treatment of oil and gas production tax in a producer's settlement with the royalty owner; relating to flared gas, and to oil and gas used in the operation of a lease or property, under AS 43.55; relating to the prevailing value of oil or gas under AS 43.55; providing for tax credits against the tax due under AS 43.55 for certain expenditures, losses, and surcharges; relating to statements or other information required to be filed with or furnished to the Department of Revenue, and relating to the penalty for failure to file certain reports, under AS 43.55; relating to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue, under AS 43.55; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the oil and gas production tax; relating to the deposit of money collected by the Department of Revenue under AS 43.55; relating to the calculation of the gross value at the point of production of oil or

gas; relating to the determination of the net value of taxable oil and gas for purposes of a production tax on the net value of oil and gas; relating to the definitions of 'gas,' 'oil,' and certain other terms for purposes of AS 43.55; making conforming amendments; and providing for an effective date."

Co-Chair Meyer declared a conflict of interest regarding HB 488, citing his background with the oil industry. Co-Chair Chenault objected and requested that Co-Chair Meyer participate and vote on the bill.

Representative Hawker also declared a conflict of interest, citing his wife's occupation with an oil company. Co-Chair Meyer objected and requested that Representative Hawker participate and vote on the bill.

Co-Chair Chenault also declared a conflict of interest because of his construction company's involvement with oil companies. Representative Foster objected. Co-Chair Chenault responded that he would participate and vote on the bill.

Co-Chair Chenault stated that the bill before the committee is the House Resources Committee Substitute (CS) for HB 488.

ROBYNN WILSON, DIRECTOR, DIVISION OF TAX, DEPARTMENT OF REVENUE introduced Commissioner Corbus.

WILLIAM CORBUS, COMMISSIONER, DEPARTMENT OF REVENUE, noted that he was representing the administration and its strong support for the Petroleum Profits Tax (PPT). HB 488 would replace the broken Economic Limit Factor (ELF) severance tax system, provide incentives for badly needed investment, and provide special incentives for small companies to explore in Alaska at higher prices. He commended the House Resources Committee for their hard work on the bill. He noted that the CS supports a 20 percent tax rate as well as a 20 percent tax credit investment rate.

Commissioner Corbus clarified why the administration supports the 20/20 tax. At present Trans-Alaska Pipeline System (TAPS) is operating at less than a 50 percent capacity. Oil production was once 2 million barrels per day and is now about 870,000 barrels per day. By 2016 it is projected to be 772,000 barrels per day. Recent production has been inadequate and discourages new investment. He emphasized that the state's wealth must be maximized over the long run.

Commissioner Corbus explained how a 20/20 tax rate would look. If oil was \$40 per barrel, an equivalent of about \$7 gas, and the prices remained uninflated, revenues from a gas line would be about \$2 billion per year for the next 35

years. Prudhoe Bay's life would be extended at least through 2050.

Commissioner Corbus addressed the 25/20 tax proposal. Under this plan there would be no gas line and a shortened field life at Prudhoe Bay. About \$200 million would be earned annually until the year 2030.

Commissioner Corbus referred to the changes made to the CS by the House Resources Committee. He suggested that the House Finance Committee carefully scrutinize these changes: one, the removal of the transition provision, two, changing the effective date, and three, the introduction of the ELF factor. In conclusion, the administration strongly supports HB 488 with the 20/20 tax proposal.

DAN DICKINSON, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, referred to a handout entitled "Petroleum Profits Tax (PPT)" (copy on file.) He began his presentation by discussing the governor's three big ideas: the current production tax system is broken, there is a need to use the tax system to encourage investment, and Alaska ought to get a fair share of tax revenues when prices are high, especially if reinvestment is low.

Mr. Dickinson related that the House Resources CS addresses the three ideas by replacing the old tax system, by providing incentives for investment, and by preserving the governor's 20/20 structure.

Mr. Dickinson addressed idea one - the current tax system is broken. He repeated that Alaska is neither getting the investment needed, nor a fair share of revenues when prices are high and investment is low. Mr. Dickinson referred to Slide 5 to show the state's unrestricted and restricted revenue and how the severance tax fits into that picture. Of the \$3.4 billion of oil, about \$2.8 is unrestricted and forms 88 percent of the general fund budget.

Mr. Dickinson reported that Slide 6 shows how the petroleum revenue is broken down. The largest piece is royalties (and should be labeled unrestricted), which in FY 2005 constituted about \$1.4 billion. The smallest slice was property tax, which was about \$42.5 million. He noted that the production tax, \$863.2 million, is the focus of today's presentation. The proposed tax would only affect production tax and none of the other components.

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Mr. Dickinson related that Slide 7 depicts the destination value at the market in 2005. He used 330 million barrels per year as the volume at \$43.43 per barrel to yield about \$14 billion. He deducted the cost of infrastructure to find

the gross value at the point of production. He then subtracted the upstream costs to obtain the net value at the point of production, which in this example is \$10,694 million. This is the value that would be split between the state, the federal government, and the oil companies.

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Slide 8 addresses what would happen under the current production tax. He started with the gross value at the point of production, subtracted the royalty rate, and multiplied by ELF. Currently, there is a high ELF on three fields: Prudhoe Bay, North Star, and Alpine. All other fields have an ELF of zero. He explained that the average ELF rate on the North Slope was .55, as depicted in the slide. The tax under this scenario equals \$927 million.

Mr. Dickinson explained how the ELF was supposed to work. As a proxy the ELF is not working. Slide 9 depicts this. Mr. Dickinson pointed out that ELF has exponents and is driven by, and is sensitive to, volume.

Slide 10 shows what happened at Kuparuk, the second largest oil field in the United States, when well productivity declined. Because productivity was so low, the ELF decreased to zero. The volume fell and costs increased. The graph shows that the severance tax is not what is affecting the barrels.

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Slide 11 depicts the decline of ELF. Prudhoe Bay is high, but the smaller fields have declined dramatically. Mr. Dickinson stated that this situation needs to be fixed.

Slide 12 shows what is happening in the North Slope of Alaska, especially the decline in Prudhoe Bay. The ELF tax system was focused on a large field and does not work for small fields.

Ms. Wilson focused on the second point of the presentation - the need to use the tax system to encourage investment. She pointed out that investment leads to more production, which leads to more revenue. She discussed four ways of encouraging investment: net vs. gross - all investment is a deduction, 20 percent credits for capital investments, up to a \$73 million annual allowance, and recognition of transition investment expenditures.

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Ms. Wilson explained how the CS addresses the previous four points. It preserves the net vs. gross idea where all investment is a deduction. It preserves the 20 percent

credit for capital investments, has a feature like the \$73 million annual allowance, and reduces the 5 years transition investment expenditures period to 3 months.

Ms. Wilson stated that the new CS provides a tax based on net profits like the governor's bill did. She further explained the gross vs. net concept in Slide 17. She compared the current tax based on gross to the PPT based on net.

Ms. Wilson clarified that tax base is gross value at the point of production. She explained how the wellhead value is determined under the current system.

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Ms. Wilson pointed out in Slide 20 that the Department of Revenue can allow a producer to elect the use of royalty value or a Department of Revenue formula that estimates a value at a specific location, such as a point of delivery into a common carrier pipeline.

Ms. Wilson explained the tax based on net profits as depicted in Slide 21. The gross value at the point of production, less the lease expenditures, which are operating costs, capital expenditures, and allowance for overhead, equals net profits.

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Ms. Wilson listed the non-deductible expenses: depreciation, royalty payments, taxes based on net income, interest and financing charges, lease acquisition costs, and other costs such as arbitration, donation, and partnerships. The intent is to separate things that are applicable to the lease from things that are not.

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Ms. Wilson explained that the governor's bill included credits to encourage investment. Twenty percent of qualified capital expenditures may be taken on exploration costs and on capital costs incurred on the lease. These credits are transferable. She explained the process of transferring credits.

Ms. Wilson related that the CS maintains the credits, but also allows the state to purchase up to \$10 million worth of credits. Credits may not be taken on abandonment costs.

Ms. Wilson noted that the CS is friendly to new investors. It has the ability to monetize credits and losses. It provides for a base allowance and converts the \$73 million

deduction to a credit of up to \$12 million, which is equal to a \$60 million deduction.

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Ms. Wilson pointed out examples of the effect of the standard credit in Slide 26. Ms. Wilson discussed net operating losses and how they are handled. Slide 27 clarifies that net operating loss (NOL) can be converted to credits at the end of the year at the rate of 20 percent of the loss.

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Ms. Wilson highlighted the transition provision. The governor's bill allowed deductions for recent capital expenditures from the last five years, allowed over 6 years when the price of oil exceeded \$40.

Ms. Wilson addressed the transition provision in the CS, which allows for a cost recovery of assets placed in service between 1/1/06-3/31/06. A deduction of 1/9 of the cost in each of the 9 months after the effective date is allowed. This is in place of a 5-year look back in the governor's bill.

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Mr. Dickinson addressed idea three - Alaska should get a fair share of tax revenues when prices are high, especially if reinvestment is low. The governor's bill had a 20 percent fair tax rate. The CS maintains a general tax rate of 20 percent and adds a progressive feature. The progressivity surcharge applies when oil price (WTI) exceeds \$50/bbl and the gas surcharge applies when gas price (HH) exceeds \$8. This is deductible from PPT. The progressivity surcharge adds 3 percent tax, based on the gross value of oil, for each \$10 increase in oil price. The gas surcharge adds a 2 percent tax based on the gross value of gas, for each \$1 increase in HH gas price.

Mr. Dickinson explained Slide 36, which shows the progressivity feature, as amended in the CS.

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Mr. Dickinson further clarified how the progressivity feature works on Slide 37. Slide 38 shows how the calculation works under the House Resources CS. Slide 39 is a continuation of the calculation of the progressivity feature. He stated that this feature is an important distinction from the governor's version of the bill.

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Ms. Wilson addressed other provisions in the governor's bill, which include monthly return filing, 90 percent payment safe harbor, and a yearly true-up on 3/31.

Ms. Wilson noted other provisions in the CS. The spill fee remains the same in total. It is no longer creditable, as in the governor's bill.

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Ms. Wilson addressed other provisions in the CS. The SB 185 40 percent credits are extended for 10 years. The private royalty oil tax rate is set at 5 percent and a penalty applies if the 90 percent safe-harbor is not met. The effective date change is from 7/1/06 to 4/1/06.

Ms. Wilson concluded that PPT is a tax for Alaska's future because it would ensure Alaska's competitiveness in the world market, it would have high oil development incentives, it would increase Alaska's share at high oil prices, and give a fair split of oil company profits.

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Co-Chair Meyer asked for clarification about the 90 percent safe harbor. Ms. Wilson explained that estimates are used on a monthly basis. Rather than have the producer pay the full amount, a safe harbor of 90 percent is paid without interest or penalty.

Co-Chair Meyer referred to a "two-for-one" term used during discussion of a Senate bill. Mr. Dickinson clarified that for every dollar reclaimed from five years of expenses, two dollars need to be spent during the recapture period. There needs to be a continual investor.

Co-Chair Meyer asked about the objective of continually investing and whether progressivity would work. He gave an example. Mr. Dickinson questioned if that would incentivize more investment. He opined that there would not be a significant difference for small amounts by raising the marginal rate. He said it was a possibility.

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Co-Chair Meyer asked if the credit would go up along with the price of oil. Mr. Dickinson did not recall that discussion.

Representative Holm asked why higher prices are not sufficient incentive for more capital investment. Mr. Dickinson replied that when oil prices are high, all areas are equally incentivized. Alaska would be competing for a

company's investment dollars. PPT is trying to make Alaska competitive. Representative Holm he asked why Alaska has not seen a tripling of investment when prices are high. He said he is not convinced that this CS will incentivize oil companies to invest if high oil prices don't do the same thing.

Mr. Dickinson responded that some companies are going out and exploring when prices are high. Other companies are bringing known fields on line. The bill intends to change Alaska relative to other oil fields in the world. The tax situation now is unique in that it does not create reinvestment. The current fiscal system is partially responsible for lack of investment in Alaska.

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Co-Chair Chenault asked what the normal depreciation schedule on oil production equipment is. He referred to the "claw back" noting that the depreciation has already been taken. Ms. Wilson replied that depreciation varies depending on the type of equipment. She gave the range for various types. The general schedule is 7 years for exploration and production equipment.

Co-Chair Chenault thought that there would be a pro-rata agreement and noted that 5 years of appreciation would already be taken off. He questioned why 100 percent should be written off for depreciation. Ms. Wilson observed that the five-year look back reflects the governor's choice, which is only one option.

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Representative Weyhrauch asked why the \$73 million figure was selected. Ms. Wilson responded that it was the choice of the governor and amounts to \$200,000 per day. Mr. Dickinson further explained that \$40 dollar oil at 5,000 barrels a day would amount to \$73 million.

Representative Weyhrauch referred to Slide 36, the progressivity feature, as amended, and asked about a \$150 per barrel scenario. Mr. Dickinson replied that \$150 was the number in the original CS, which was then amended. He clarified what the lines in the graph depict. Representative Weyhrauch requested information about the progressivity feature in writing. Mr. Dickinson responded that he does not have that available.

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Representative Weyhrauch questioned if one of the big ideas is to lay the base for gas line investment. Mr. Dickinson

agreed that the result would affect the gas line proposal, but suggested that PPT would stand on its own.

Representative Weyhrauch referred to ways to measure reinvestment and questioned if it would be quantified. Mr. Dickinson agreed that it would make sense to review the affects on reinvestment.

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Representative Holm asked for the number of barrels produced in 2016. He thought that the reduction was minimal. Mr. Dickinson estimated that the production in 2016 would be 700,000 barrels a day.

Representative Holm questioned why the urgency, if the field is not dropping quickly. Mr. Dickinson observed that there is an urgency for investment because it takes 5 - 6 years for investment to come to term. He added that the current values would drop if the production were not leveled.

Representative Holm summarized that there would not be an increase, since it would take 5 years. The drop in production would offset the additional investment. Mr. Dickinson agreed.

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Representative Hawker referred to the governor's proposal and noted that the committee substitute would change the implementation date to six months. He questioned if there were sufficient time to form regulations. He asked if it would be better to have regulations in place before the taxpayers were asked to comply.

Ms. Wilson noted that there is a provision to allow regulations to be put in place. The fiscal note reflects built-in expenditures to get regulations out quickly. She acknowledged that it is not an ideal situation. She did not think the effective date would be worse than the governor's date, in terms of administration.

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Representative Hawker questioned the amount of regulation needed to implement this bill. Ms. Wilson thought there would be a fair amount of regulation regarding allocation and overhead. Mr. Dickinson added that the CS would allow the first six month's payments to be based on the old formula. The 7th payment would have to "true up" for the first 6th months, with no interest and no penalties. There is urgency by the State of Alaska to put the new terms in place while oil prices are high. He added that there are two aids which will help when writing regulations: one

allows work that Department of Natural Resources has already done, and the other is to accept the agreements that are in place on the North Slope. He observed that there is a group that audits monthly bills, and the hope is to rely on that current agreement. The fiscal note provides for contract work to set regulations. There are firms that represent small producers and the intent is to bring them on board to help write regulations.

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Representative Hawker stated that internal auditing of joint structures might not get to the problem, because they would be writing regulations for which they are accountable.

Representative Hawker referred to the progressivity chart and observed that there is a huge "jump up break point". He asked if there were other mechanisms to achieve a progressive structure. Mr. Dickinson observed that there are other models, but that this one is fairly typical.

Representative Hawker declared that he did not have the economic background to analyze the various approaches. He questioned if the administration and other committees have the ability and resources to analyze models other than a surtax model. Mr. Dickinson responded that they would continue to do that.

Representative Hawker noted that the governor proposed a flat tax. He questioned if the administration has the resources to "flush out" a credit system as well as a revenue system. Mr. Dickinson stated that they did.

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Representative Hawker referred to the mechanism for annual monthly payments to provide 90 percent over the year. He questioned if the House Resources CS would subject payees to a penalty if they did not make sufficient payment. Ms. Wilson observed that the CS provides a penalty if the 90 percent is not met. Mr. Dickinson added that unless payment was 90 percent or over, there would be a penalty provision. This is not the case in the status quo.

Representative Hawker referred to Slide 26, the effect of the standard credit. He asked if he invests \$5 million, if he would receive a benefit of \$6 million. Ms. Wilson said that is correct. He added that for a \$12 million investment, the investor would receive a \$14.4 benefit. Ms. Wilson agreed.

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Representative Kelly referred to Slide 10 on Kugaruk. He asked how much the state lost from not anticipating the Kugaruk curve. Mr. Dickinson agreed to find out that information. Representative Kelly wondered if a comparison was done on the 20/20 regarding progressivity. Ms. Wilson observed that the comparisons were done and would be provided in the next presentation.

Representative Kelly asked if there are other models to look at. He inquired about other possible safety nets such as ELF. Mr. Dickinson offered to provide other models. Mr. Dickinson explained that the floor is a cash-flow issue. Neither the original bill nor the CS has that provision.

Ms. Wilson encouraged the members to write down their questions.

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Representative Hawker said he looks forward to flushing out some progressivity mechanisms.

Representative Joule commented on Slide 40 regarding the effective date and the claw back. He wondered why the state does not have a claw back. Mr. Dickinson spoke to investment expectations and the dangers of a situation where there is no transition provision.

Ms. Wilson noted that the sponsor statement contains some errors that need to be corrected.

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ROGER MARKS, PETROLEUM ECONOMIST, ECONOMIC RESEARCH SECTION, TAX DIVISION, DEPARTMENT OF REVENUE, presented quantitative analysis as shown in a handout entitled "PPT Revenue Studies" (copy on file.)

Mr. Marks referred to Slide 5 to show the progressive surcharge using West Texas Intermediate (WTI) prices. He pointed out the "jump up" that occurs at \$110.01, which is of concern. Slides 6 and 7 shows WTI and Arctic North Slope (ANS) differential from Jan. 1988 - Feb. 2006.

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Mr. Marks depicted two volume scenarios on Slide 9. One is without enhanced volume and no gas line, the other with a gas line and enhanced volumes. With a gas line there would be an additional 3.1 billion barrels of conventional oil and 1.7 billion barrels of heavy oil. In the low volume scenario, there would be 5.7 billion barrels through 2030. The graph on Slide 10 depicts these two scenarios.

Mr. Marks related costs and prices relating to the production tax. Slide 11 lists the various costs, prices, and revenues in real \$2005 dollars. Heavy oil is discounted 8 percent for quality. It is predicted that ten full company equivalents would take the \$12 million credit allowance.

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Mr. Marks addressed the original intent of the \$73 million allowance. Small companies would explore new areas with this incentive. The House Resources CS changes this to a \$12 million credit.

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Mr. Marks addressed the feedback effects not modeled. He shared several tendencies such as production depends on investment. There is more investment with incentives and credits are incentives. Upstream costs cannot be deducted currently. Credits can be sold or converted, which will increase net investment. There are more investments with higher prices, and less investment with higher taxes. Investment is driven by competitive international opportunities.

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Mr. Marks discussed cumulative revenues without enhanced volumes/without gas line and with enhanced volumes/with gas line. Enhanced volume scenarios do not include gas line severance taxes, but do include gas line costs. Upstream development costs are deductible.

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Mr. Marks referred to Slide 14 - cumulative severance tax from 2006-2030, low volume scenario. The low volume scenario does not include the gas line. He related that what is deductible under PPT are upstream costs for producing oil and gas. Downstream costs are not deductible. Severance taxes from gas are not included. The stranded gas contract is separate from the PPT bill. A \$5 price of gas in Chicago would equal an extra \$1 billion a year over 35 years.

He addressed the low volume scenario from \$15 to \$65 ANS West Coast Price bbl. He compared the governor's bill to the House CS and the status quo.

Slide 15 shows the crossover point and slope of two plans. He suggested that the slope is as important as the crossover point. Slide 16 addresses the high volume scenario of the

cumulative severance tax. It compares the governor's bill and the House CS.

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Mr. Marks expounded on annual revenues without enhanced volumes/without gas line and with gas line/with enhanced volumes.

Representative Holm stated that the gas line in the high volume scenario has no money for 20 percent "in kind". He asked if it is assumed that there would be participation in "in kind" if a gas line goes in. Mr. Marks agreed but said it would be distinct from PPT. A percent of gas "in kind" would be taken outside of the 20 percent PPT. With the gas line there would be additional oil barrels.

Mr. Marks continued to show the low volume scenario on Slide 18. The status quo averages \$116 million annually. The average annual revenues are \$100 million less than the status quo. At \$20 oil prices there are bigger problems under the status quo. Obsessing about low prices is not fruitful because there is not a significant amount of money.

Mr. Marks addressed Representative Joule's comment about claw back for the state. He noted that those investments could have been deferred had it been know that the tax was changing. He addressed the problem of retroactive taxes and the rationale for having an effective date.

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Mr. Marks referred to page 19. The House Resources CS has average annual revenues of \$400 million more than the status quo and \$100 more than the governor's bill. He emphasized not to worry about low prices under this scenario. Slide 20 shows the House CS has average annual revenues of \$1.3 billion more than the status quo and \$400 million more than the governor's bill. He noted that this scenario is equivalent to state gas line revenues at \$5.00/mmbtu Chicago price without the gas line.

Mr. Marks related that Slide 21 shows average annual revenues of \$100 million less that status quo for both proposals. The status quo averages \$112 million annually. Slides 22 and 23 depict the same information at \$40 and \$60.

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Mr. Marks explained the effective tax rate under the status quo is based on the wellhead value, which is the market price, less transportation costs. Under the status quo, the effective tax rate is the ELF times the 15 percent nominal

rate. Under PPT the effective tax rate is the severance tax, divided by the gross value at the point of production.

Slide 25 depicts the effective severance tax rate under a low volume scenario, and Slide 26 shows the high volume scenario.

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Mr. Marks defined state take as the amount of money that the state gets by dividing the severance tax by the economic rent. This is a regressive system under all three scenarios. Slides 28-29 depict the three scenarios regarding state take.

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Mr. Marks concluded the presentation highlighting how PPT would affect Cook Inlet. Slide 31 shows how Cook Inlet looked in 2005 with 8 producers producing both gas and oil. He stated that there were 3-4 oil producers with 3 sizeable gas producers.

Mr. Marks described Cook Inlet gas as "gas prone" - about 80 percent gas on a barrel of oil equivalent. The PPT impact on oil is not going to be significant. The Cook Inlet gas industry is evolving and it is difficult to determine which way it is moving. There is new increased investment. It is difficult to define how investors will react.

The price inlet picture in Cook Inlet is uncertain. He mentioned that gas taxes on existing fields may increase at higher prices. He spoke to the decision made by the RCA and how that affects contract pricing. It is difficult to determine what is going to happen.

Under PPT, on existing fields where the infrastructure is old, there may be an increase in tax. New fields may see lower taxes. He spoke to the ability to modify taxes. The old existing fields are based on the gas ELF, which is structured much simpler than the oil ELF.

Mr. Marks pointed out that the gas ELF has been in place since 1977 and it has not changed in almost 30 years. Anyone producing gas has been under the same structure for 35 years.

Mr. Marks referred to Slide 34, which depicts all of the Cook Inlet gas fields. The average ELF is .5; producing about 6,000 mcf per day. The impacts of the gas ELF were not included in the fiscal note because of the smaller fiscal impact and because of its uncertainty.

Mr. Marks referenced Slide 35 and the facts related to the gas ELF. He estimated a crossover point at about \$5/mcf on existing fields, and at \$6/mcf, an increase of \$25 million annually on existing fields. The \$25 million would decrease as production decreases. New production may see reduced taxes unless prices were very high.

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Co-Chair Chenault recommended that questions be given to his office.

HB 488 was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 4:56 PM.