

HOUSE FINANCE COMMITTEE  
April 1, 2006  
10:08 a.m.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [10:08:27 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Richard Foster  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Beth Kerttula

MEMBERS ABSENT

Representative Jim Holm  
Representative Carl Moses  
Representative Bruce Weyhrauch

ALSO PRESENT

Paul Laird, The Alliance, Anchorage; Bob Stinson, Conam Construction, Anchorage; Chris Johansen, Flowline Alaska, Anchorage; Representative Paul Seaton, Representative Les Gara; Representative Vic Kohring; Kevin Ritchie, Executive Director, Alaska Municipal League, Juneau.

PRESENT VIA TELECONFERENCE

ANCHORAGE

Dr. Paul B. Simons, Anchorage; Mike Koy, Anchorage; Shirley Nelson, Anchorage; James Gilbert, Anchorage; Jananna Caselli, Anchorage; Hillary McIntosh, Anchorage; Tadd Owens, Executive Director, Resource Development Council, Anchorage; Eric Badger, Anchorage; Scott Thorson, Anchorage; Lori Backes, Anchorage; Mary Shields, General Manager, Tech Services, Anchorage; Maynard Tapp, Business Owner Anchorage Lynn Johnson, Anchorage; Karl Hoenack, Carlile Transportation Anchorage; Randy Payne, Carlile Transportation Anchorage; Dave Miller, Anchorage; Judy Brady, Alaska Oil and Gas; Paul Laird, The Alliance; Bob Stinson, President, Conam Construction; Tom Lakosh, Anchorage.

FAIRBANKS

Chris Johansen, Flowline Alaska, Fairbanks; David Gottstein, Backbone II; Mark Sharp, Fairbanks; Nicholas Van Wyck, Fairbanks; Rebecca Kyle, Fairbanks; Luke Hopkins, Assembly, Fairbanks; Mark Ames, Fairbanks; Greg Thies, Fairbanks; Steve Hovenden, Fairbanks; Merrick Peirce, North Pole;

**OTHER AREAS:**

Joey Crum, MatSu, Northern Industrial Training; William Phillips, Kenai; Scott Hamann, Nikiski; Bruce Passe, Soldotna; Jim Pfeiffer, Seward-Lowell Point; Joe Hegna, MWH Globa, MatSu; Bill Warren, Kenai; Ed Martin, Soldotna; Jim Sykes, Palmer

GENERAL SUBJECT(S):

HB 488-OIL AND GAS PRODUCTION TAX  
Public Testimony

HB 488 was held in Committee for further discussion

The following overview was taken in log note format. Handouts will be on file with the House Finance Committee through the 24th Legislative Session, contact 465-6814. After the 24th Legislative Session they will be available through the Legislative Library at 465-3808.

HB 488-OIL AND GAS PRODUCTION TAX  
STATEWIDE TESTIMONY

<b>TIME</b>	<b>SPEAKER</b>	<b>DISCUSSION</b>
<a href="#">10:08:52 AM</a>	Co-Chair Chenault	Convened the House Finance Committee meeting to take statewide testimony on HB 488, the oil and gas production tax.
<a href="#">10:09:52 AM</a>	Dr. Paul B. Simons, Anchorage	Expressed concern with "secret" discussions in the Governor's Office. He noted other investments in Norway, which would increase oil production by 85%. He maintained that similar techniques could be used in Alaska. He observed that a petrol-chemical industry could be built in Alaska. He asked that caution be maintained in regards to book keeping on the tax and pointed to plants in Edmonton, Canada.
<a href="#">10:14:13 AM</a>	Mike Koy, Anchorage	He observed that most oil companies use a fixed price of \$20 - \$30 a barrel when making development decisions. He felt that HB 488 would lose the state money in its current tax structure. He maintained that oil fiscal terms have no impact on the viability of the gas pipeline.

<a href="#">10:17:51 AM</a>	Shirley Nelson, Anchorage	Maintained that higher taxes will reduce investments on the North Slope. She urged that there be reinvestment in Alaska. She emphasized that the outcome of the tax bill will affect every community in the State.
<a href="#">10:19:01 AM</a>	James Gilbert, Anchorage	Felt that the changes proposed by the Governor would jeopardize small business statewide. He urged that the Committee enact the highest tax structure possible. He noted concern with the lack of a state fiscal plan and how that will affect the taxation consideration.
<a href="#">10:21:12 AM</a>	Jananna Caselli, Anchorage	She noted that her family's livelihood is directly related to the oil and gas industry in the State. She addressed work opportunities available in the State. She urged the Committee to "play their cards right".
<a href="#">10:22:37 AM</a>	Hillary McIntosh, Anchorage	Addressed how the oil and gas industry affects her family structure. She noted how much funding the oil companies donate to nonprofits statewide. She urged passage of the Governor's bill.
<a href="#">10:25:16 AM</a>	Tadd Owens, Executive Director, Resource Development Council, Anchorage	He questioned what provisions were being made for lower costs. He questioned decisions being made and if they will contribute to budget stability. He urged that Alaska drilling not be placed at a disadvantage. He observed that the original version of HB 488 doubles taxation to the Industry.
<a href="#">10:28:01 AM</a>	Eric Badger, Anchorage	Testified in support of the Governor's proposed bill. He acknowledged that the oil producers need to pay their fair share, but cautioned that the State not become too greedy.
<a href="#">10:29:22 AM</a>	Scott Thorson, Anchorage	Voiced concern regarding raising oil taxes too high. He stressed that the current rate & future investments are directly linked and emphasized that petroleum companies are required to make large investments in initial set-up.
<a href="#">10:30:41 AM</a>	Lori Backes, Anchorage	Applauded members for the work done on the legislation. She voiced concern that the bill will become part of the gas line contract. She warned about a situation that will end with a 30-year lock-in set up with no back line. She

		pointed out that the Administration plans to build in Canada before Alaska and maintained that if the Canadian line is built first, the one in Alaska would be less certain. She maintained that Alaskans deserve certainty.
<a href="#">10:33:26 AM</a>	Mary Shields, General Manager, Tech Services, Anchorage	Voiced concern that passage of the legislation amended in Committee would adversely affect the state's workforce. She worried about the "fall-out" that might happen with greater taxation. She stated that the gas line is the future of the State.
<a href="#">10:36:01 AM</a>	Maynard Tapp, Business Owner Anchorage	Encouraged more investment in the State. He noted the donations given by the industry toward education. He thought that the bills should be viewed as resource development rather than taxation. He addressed the PPT number. The technologies are not guaranteed or cheap. He stressed that the state must invest by building the gas pipeline.
<a href="#">10:39:14 AM</a>	Lynn Johnson, Anchorage	He noted that he employs 28 people year-round. The bulk of his business originates in the North Slope and Cook Inlet. He cautioned that the original Governor's bill not be changed and maintained that an increase in taxes would reduce investment capital. He maintained that Alaska needs to encourage development through stability.
<a href="#">10:43:00 AM</a>	Karl Hoenack, Carlile Transportation Anchorage	Cautioned that Alaska not tax itself out of the market.
<a href="#">10:43:50 AM</a>	Randy Payne, Carlile Transportation Anchorage	Stressed the importance of the oil industry.
<a href="#">10:45:16 AM</a>	Dave Miller, Anchorage	Stressed the need to look out for the stakeholders of the state of Alaska. He maintained that Alaska is a good place to do business with one of the lowest tax rates in the world.
<a href="#">10:46:31 AM</a>	Judy Brady, Alaska Oil and Gas	Observed that the industry is worried about the decline and the balance between increasing taxes and investments. She observed that questions must be asked every time the Legislature changes the balance. She urged the Legislature to continue asking the questions regarding who is

		the competition. She acknowledged that the stakes are high.
<a href="#">10:49:54 AM</a>	Paul Laird, The Alliance	Noted discussions regarding finding the right rate. He observed that the 20/20 tax rate would result in \$1 billion [in additional revenues] to the state. He maintained that every dollar paid to the additional tax will be a dollar that will not be used for investment. He maintained that the citizens of the state would pay the cost if the investment were not made. He stressed development will continue if the right balance is struck. He spoke against an increase in taxes beyond the rate in the original legislation.
<a href="#">10:52:47 AM</a>	Bob Stinson, President, Conam Construction,	He spoke in support of the Governor's original proposal. The \$20 percent credit would encourage large and small producers to invest. He maintained that the 20 percent tax would be a large increase, but observed that industry has agreed to it in order to encourage stability. He asserted that overtaxing would drive investment dollars out of the state. Producers have agreed to the 20/20 proposal, but might be driven out with increases.
<a href="#">10:55:40 AM</a>	Chris Johansen, Flowline Alaska, Fairbanks	Observed that millions of dollars are being invested in the Tourism Industry, which doesn't pay any taxes to the state of Alaska. He spoke against increases in taxes to the oil industry.
<a href="#">10:57:10 AM</a>	David Gottstein, Backbone II	Acknowledged the daunting task before the Legislature. He stressed that the state must increase incentives for exploration without sacrificing the values of economic production. He spoke in support of an enforceable severance tax, based upon a progressive structured on the wellhead value of the resource. He encouraged an audit be conducted to verify oil company reports. He spoke in support of a severe penalty if companies are not honest. He referred to "fair-share". He maintained that taxes are the state revenue base and fair-share. He provided members with information regarding ConocoPhillips annual reports for 2003 - 2005. He concluded that incremental tax is more than offset by the higher than anticipated increase in

		oil prices. The before tax margin has increased from 50 - 80 percent. The after tax margin has increased from 37 - 57 percent. ConocoPhillips' share of the revenue ranges from 340 - 950 percent. He urged that the state pass HB 71, retrieve Pt. Thomson and put its gas out to bid. He spoke in support of a fair and rational oil and gas tax structure irrespective of whether a gas line is built. He urged a progressive structure.
<a href="#">11:06:58 AM</a>	At ease.	
<a href="#">12:08:01 PM</a>	FAIRBANKS	
<a href="#">12:09:08 PM</a>	Mark Sharp, Fairbanks	Observed that the major oil producers have maintained that the future of oil exploration is only second to the moon. He indicated that he did not believe the testimony provided by the companies.
<a href="#">12:14:44 PM</a>	Nicholas Van Wyck, Fairbanks	Agreed that the oil tax structure is broken and must be fixed. He spoke in support of a sliding scale, which would recoup benefit when profits are up. He suggested a sliding scale between 20 - 25 percent. He felt that there should be more discussion regarding the \$73 million deduction. He stressed that there needs to be some way to encourage small independent companies. He did not understand the need for secrecy and felt that gas negotiations should be public. He spoke in support of rewarding companies that have been spending money in the state. He asked what happened to the gas to liquid proposal. He suggested that liquefied gas resources could alleviate the need for an additional line.
<a href="#">12:19:35 PM</a>	Rebecca Kyle, Fairbanks	Observed that Alaska is a free and independent state and has the ability to develop its own resources.
<a href="#">12:20:59 PM</a>	Luke Hopkins, Assembly, Fairbanks	Urged the Legislature to listen to their legislative consultants. He spoke in support of progressivity, which would increase the tax when prices are above \$50 a barrel. He asked consideration of an earlier effective date, such as January 1 or April 1, 2006. He acknowledged arguments that there are no guarantees for a gas line. He expressed concern that if the price of oil falls below \$20 a barrel that

		there would be no tax revenue for the state of Alaska. He expressed concern for the effects of a drop on the state's budget. He emphasized the need for a community dividend program.
<a href="#">12:25:32 PM</a>	Mark Ames, Fairbanks	Stressed that the maximum use of resources needs to be in line with public use. He felt that the state's ownership interest was not being maintained. He referred to Article XIII Section 1 and 2. He emphasized the Legislature's role in protecting the public interest.
<a href="#">12:33:38 PM</a>	Greg Thies, Fairbanks	He spoke against the direction the PPT legislation had taken, which he argued was not logical. He emphasized that existing fields need new investment or reinvestment. He acknowledged that the ELF needs to be changed, but stressed the high cost of doing business in Alaska. He maintained that independents are the key, and that the committee substitute may scare them off. He noted that 85 percent of the state's revenue comes from oil and gas.
<a href="#">12:38:29 PM</a>	Steve Hovenden, Fairbanks	Observed the high cost of gas and oil. He expressed concern that petrol-chemical development is going to Canada. He spoke against a 30-year lock on the tax. He spoke in support of an in-state gas line.
<a href="#">12:42:34 PM</a>	Merrick Peirce, North Pole	He asked for a summary of the loss in oil revenue the state has settled for in regards to a gas pipeline. He maintained that oil and gas taxes should be structured so that the state does not lose revenues in the future. He spoke in support of the addition of progressivity. He encouraged the Committee to look at the loss of state revenue when the price falls below \$20 a barrel. He felt that more work needed to be done on the effective date. He stressed that auditors not be put into compromising positions.
<a href="#">12:47:39 PM</a>	At ease:	
<a href="#">1:25:01 PM</a>	Kevin Ritchie, Executive Director, Alaska Municipal League	Thanked the committee for their work on this important issue. The Alaska Municipal League supports this bill to ensure a firm economic base in Alaska.
<a href="#">1:27:50 PM</a>	Joey Crum,	Noted that the oil industry provides

	MatSu, Northern Industrial Training	many jobs for his industry. He voiced concern that raising taxes on oil would result in unemployment in Alaska.
<a href="#">1:29:30 PM</a>	William Phillips, Kenai	Noted that the primary goal of oil companies is to make money for their stockholders. He maintained that ConocoPhillips is not sincere in their intentions to build a gas pipeline. He suggested that many companies are being forced out of other companies and need Alaska for new exploration.
<a href="#">1:32:37 PM</a>	Scott Hamann, Nikiski	Believed that the Administration negotiated with the oil companies in good faith. He voiced concern about the large budget.
<a href="#">1:34:15 PM</a>	Bruce Passe, Soldotna	Stated that Cook Inlet should be left under the ELF agreement because it is different than the other fields. He maintained that Cook Inlet's infrastructure could not survive such a high new tax. He said that PPT misaligns joint ventures in Cook Inlet.
<a href="#">1:36:49 PM</a>	Jim Pfeiffer, Seward-Lowell Point	Testified as an employee of BP. He said there are no more Prudhoe Bays. He urged the Committee to accept the amount of tax included in the governor's bill.
<a href="#">1:38:16 PM</a>	Joe Hegna, MWH Globa, MatSu	Spoke as owner of MWH and stressed the need for oil companies to invest in his company's projects. Higher tax means less investment and fewer jobs.
<a href="#">1:39:49 PM</a>	Tom Lakosh, Anchorage	Agreed with the testimony of Mr. Gottstein and Mr. Phillips. He related that the current bill fails to relate IRS tax to a specific date. He spoke of Alberta as Alaska's closest competition and stressed that it should be used in comparisons. He noted that the more complicated the deductions and provisions are, the more likely litigation will take place. He suggested Alaska get the full benefit from its oil. He spoke against the claw back provision.
<a href="#">1:48:54 PM</a>	Bill Warren, Kenai	Spoke of his long work history with oil and gas. He urged the committee to take its time on PPT and look at the gas contract before finalizing the oil tax. He warned the Committee not to sign a 35-year contract. He maintained that Alaska needs to take the reins, not the oil companies.

<a href="#">1:51:15 PM</a>	Ed Martin, Soldotna	Felt that ELF was once a fair tax, but emphasized that another tax is needed. He maintained that Alaska should share in the windfall profits. He proposed that the Committee keep the 25/20 tax and modify it so that at \$40 per barrel, Alaska would get a fair share.
<a href="#">1:55:15 PM</a>	Jim Sykes, Palmer	Noted that he testified previously on HB 488. He suggested a 50/50 split. He discussed balancing the take. He mentioned ways of dealing with incentives. He suggested that the legislature dictate the definition of profits and put in a funding provision. He urged the Committee to seek a fair share.
		HB 488 was held in committee for further discussion.
	<u>ADJOURNMENT</u>	The meeting was adjourned at 2:00 PM