

HOUSE FINANCE COMMITTEE  
April 5, 2006  
1:37 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:37:31 PM](#).

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Dr. Tony Finizza, Special Consultant, Econ One Research;  
Barry Pulliam, Senior Economist, Econ One Research; Senator Lyda Green; Senator Gary Wilken; Senator Fred Dyson; Senator Con Bunde; Senator Bert Stedman; Senator Lyman Hoffman; Senator Donny Olson

PRESENT VIA TELECONFERENCE

None

SUMMARY

**Econ One Presentation**

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.

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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."

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BARRY PULLIAM, SENIOR ECONOMIST, ECON ONE RESEARCH, provided background information about Econ One, an economic research and consulting firm that has worked in Alaska since the 1980's. Mr. Pulliam gave an overview of today's presentation and referred to a handout "Presentation on Alaska Gas Pipeline Project" (copy on file.) He referred to slide 2, the list of consulting services his firm provides. He mentioned work for federal government agencies on energy-related matters, as well as for foreign countries and companies in the petroleum and natural gas industry.

Mr. Pulliam shared his working experience as listed on slide 3 of the handout. He informed the Committee of Dr. Finizza's background and qualifications listed on slide 4.

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DR. TONY FINIZZA, SPECIAL CONSULTANT, ECON ONE RESEARCH, focused on oil price issues. He said he wanted to make the Committee aware that they should not be too certain about the future. He referred to slide 6, which lists conclusions and observations regarding oil price forecasts. Producers are using \$40 as a planning base case, with \$30 as a stress price case, to make their predictions. The majors may be using a slightly lower price range than independents, but are moving their views up. This range may be lower than their best estimate, but is consistent with their prudent planning approach. This range is also consistent with recently observed oil asset purchases. This range is consistent with publicly available forecasts although the recent Department of Energy's forecast is above this range. What really matters is what forecast the risk takers are using. Forecasters have been humbled and will be humbled by their forecasts.

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Dr. Finizza discussed factors suggesting continued higher prices and those opposing higher oil prices, as seen on slide 7. Continued higher prices are affected by strong oil

demand and a growing gap between global demand and global non-OPEC supply.

Factors opposing higher prices include the fact that conventional oil faces a threat from alternative sources of liquids when prices are high. There will be a penetration of alternative transportations vehicles. The economy cannot sustain very large increases in prices. A \$10 barrel difference in oil prices is a \$73 billion increase in total consumer costs per year, effectively a tax on the consumer.

Dr. Finizza depicted Exxon Mobil's world liquids production outlook on slide 8. Oil demand from Asian economies and what appears to be a retarding of oil supply, suggests that liquids from OPEC would grow and would keep prices high.

Slide 9 shows various oil price forecasts. One is the Energy Information Agency's (EIA) Annual Energy Outlook (AEO), January 2006, that forecasts oil prices through 2030, converted to WTI by Econ One. Others are the International Energy Agency in Paris, a Reuters Poll of 18 oil analysts for WTI in 2010 from March 2006, and NYMEX Futures Market, which all generally say prices will be in the \$40 per barrel range for a while.

Slide 10 depicts EIA's annual energy outlook for 2006, based on probability. Looking at 2030, real prices should be in the \$30-\$70 range 60 percent of the time.

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Slide 11 deals with the Reuters poll forecast for WTI in 2010 from 18 oil analysts. The median is about \$40 per barrel. Slide 12, IEA's oil price forecasts, shows a similar pattern all lower than prices today. Slide 13 depicts WTI prices with selected NYMEX strips - the history and the market forecast in nominal dollars. It predicts that prices will be lower than today's prices.

Slide 14 shows producers' views of future oil prices. He noted that producers have been burned by forecasts of high oil prices in the past. Dr. Finizza predicted that producers will test their projects against a price path that is below their most likely view, which might be \$35 to \$40 per barrel. He thought that producers will also stress test their projects at \$30 per barrel. He emphasized that the consequences of error are not symmetrical. If producers overstep the future path of prices, they will be severely punished by Wall Street.

Slide 15 shows implied oil company price views of Marubeni, Norsk Hydro, and Statoil. Slide 16 shows some examples of humbling oil price forecasting, one by the EIA and another by polls of "experts" from the Society of Petroleum

Evaluation Engineers (SPEE). Slide 17 shows EIA's annual price outlooks, all of which were higher than the actual forecast. Slide 18 shows SPEE's annual Delphi poll forecast compared with the actual value through May 15, 2004.

Slide 19 comes off of the British Petroleum website and shows historical crude oil prices, in nominal and in real dollars, nearing or above today's prices. He pointed out that until now, \$40 dollar forecasts were only breached in the 1970's and early 80's.

Mr. Finizza summarized that "the oil price analysis for looking at the impact on producers and explorers, I think, should center on the price scenarios they're thinking themselves," and is a reasonable forecast for Alaska to consider.

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Dr. Finizza spoke about the economics of new fields. He began with his conclusions, as shown in Slide 21. Without ANWR opening, expectation of large oil discoveries is unlikely, due to the field size distribution of remaining economic reserves. At low prices, 25/20 helps the explorer more than 20/20 because of the way it shelters the costs. Incentives are required at low prices, although alternative approaches could work. For example, a production tax holiday might work. The sunset provision in the Senate CS is not going to provide incentives for exploration because the timing is wrong. At low prices, both tax plans are preferred over the status quo in order to incent exploration. Exploration is still a risky business. Under either 20/20 or 25/20, the remaining reserves to be explored are economic reserves, except at very low prices.

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Dr. Finizza depicted a stylized lifecycle of a new field in slide 22. There is an exploration and appraisal period of four years, a development capital period of three years, and a production phase of 5-20 years. He pointed out that there is a 7-year lag from the time of exploration to production. He opined that the sunset provision expires at the point of production; therefore, the model is without the sunset provision.

Slide 23 is a table comparing the reserves that might be available for exploration in the Central North Slope vs. in ANWR. They are undiscovered technically recoverable oil reserves. The best estimate of oil reserves in the Central North Slope is 4 billion; in ANWR it is 10.4 billion. The USGS is saying that 22 percent of the oil in ANWR is likely to be found in fields over 1 billion barrels. In the Central North Slope that amount is zero. In the Central

North Slope the amount to be found in fields smaller than 64 million barrels is 51 percent, whereas, in ANWR it is only 1 percent. This makes it tough for exploration projects.

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Senator Wilken asked why the estimates in NPRA are not considered. Dr. Finizza said they should be included. They would be analogous to the Central North Slope numbers.

Slide 24 looks at the size distribution of undiscovered fields in the Central North Slope. The expected number of fields with more than 500 million barrels is one; with more than 50 million it is 21. Slide 25 shows that ANWR has a lot larger fields.

Slide 25 shows economic oil reserves in the Central North Slope at alternative prices. At WTI \$40, 1.89 billion barrels would be economically recoverable.

Slide 27 shows the expected discoveries under alternative prices in the Central North Slope. At the \$40 level, the expected number of discoveries would be about 20 fields, over time, of which 60 percent would be small. Slide 28 shows the likely distribution of new field discoveries.

Slide 29 depicts how an explorer might look at the exploration proposition. One way would be to calculate the Net Present Value of all outcomes, weighted by the expectation of the outcome. The most likely outcome is a dry hole. He highlighted the example on the slide.

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Slide 30 shows the schematic of cash flow for this example, which is negative 100 percent of the time for cash flow from exploration, and negative 16.7 of the time for cash flow from development and production. Slide 31 shows how to avoid the "gambler's ruin". If the chance of drilling a successful well is 1-in-6, an explorer will want to mitigate the risk of failure by drilling more wells.

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Slide 32 is an illustration of a failed exploration program. He gave a hypothetical situation under the current tax, under 20/20, and under 25/20. Slide 32 shows oil production profiles from the four types of fields. It depicts the number in millions barrels per year and the number of years from the start of development. Slide 34 depicts the economics of a 6-well exploration program with a 50 million barrel-per-day field, under high cost and with low production, without a \$60 million allowance. Slide 35 depicts the same information with a \$60 million allowance.

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Slide 36 shows the economics of a 6-well exploration program without a \$60 million allowance.

Slide 39 is a comparison of tax proposals: the House CS, status quo, 20/20 with a \$73 million tax allowance, and the Senate CS, with the producer net cash flow discounted at 10 percent. The three plans do better than the status quo at low prices. Slide 40 shows the total state revenues comparing the same tax proposals with a crossover point at about \$50. Slide 41 shows the impact of progressivity for the same 4 proposals, and producer net cash flow. Slide 42 depicts the impact of progressivity on total state revenues.

Slides 43 and 44 depict the impact of 25/20 versus 20/20 on producer net cash flow and on total state revenues.

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Slide 45 summarizes exploration forgiveness - an alternative to tax free allowance. Dr. Finizza suggested, for each new field, to give a "tax holiday" from the PPT for the first 10 million barrels of production, which is equivalent to the tax re-allowance in dollar terms. This would provide an incentive for new exploration because it helps improve producers' cash flow in the early stages of production. Producers could not seek royalty relief if they opt for the tax holiday. It also provides an incentive to put the field on early. The tax holiday would not be applied to existing fields. The fiscal impact on the state would not be felt until the field is producing.

The graph in slide 46 shows tax-free annual production in a 50 million barrel field. Slide 47 is the typical cumulative production profile of a 100 MMB field. Slide 48 shows the impact on producer economics, and slide 49 shows the impact on state revenues. Slide 50 depicts the impact on small field economics in a 50 MB field.

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Slide 51 explains how producers may look at results on a probabilistic basis. Dr. Finizza used a mean of \$40 and P20 of \$25, and P80 of \$55 (\$40 plus or minus \$15). Slide 52 shows the distribution of results - producer internal rate of return( IRR). The blue line depicts the IRR from PPT using the House CS versus the status quo. The table on the right shows if the median value for IRR is 17.2 percent, under the status quo it would be roughly 14 percent. Using P20, the IRR under PPT is 9.5 percent and under the status quo, 5 percent. The graph shows the chance of IRR under PPT and under the status quo. Slide 52 deals with the

distribution of results and the producer IRR, and slide 53 shows its effect on total state revenues.

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Dr. Finizza summarized his observations regarding exploration impacts in slide 54. Without ANWR opening, the expectation of large oil discoveries is unlikely, due to the field size distribution of remaining economic reserves. At low prices, 25/20 helps the explorer more than 20/20. Incentives are required at low prices, although alternative prices would work as well. At low prices, 20/20 and 25/20 are preferred over the status quo, in order to incent exploration. Exploration is still a risky business. Probabilistic results using the "Industry View" of oil prices yields a smaller chance of losing IRR under PPT than under the status quo. There is a higher change of a revenue loss for the state under PPT. Under either a 20/20 or 25/20 program, remaining reserves are economic except for at low prices (<\$30).

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Senator Con Bunde asked for an opinion about the likelihood of \$40 per barrel prices in the future. Dr. Finizza said he believes the \$40 amount is correct. The EIA has a \$50 price as their best guess. He maintained that \$40 would match the industry's predictions. Senator Bunde asked Senator Wilken what this year's budget is based on. Senator Wilken said \$49.

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Mr. Pulliam turned the discussion to PPT and existing fields. He referred to slide 56, the effective severance tax rates over time for historical and projected fields, under the status quo. He defined "effective tax rate" as the nominal rate times ELF. The ELF will drive down the effective tax rate. Over the next 24 years, the average of all fields will be just over 5 percent, rather than just over 12 percent. Slide 57 shows the same information by field - Prudhoe Bay, Kuparuk, and Alpine. Slide 58 shows the effective tax rates and wellhead prices over time on all North Slope fields.

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Slides 59-61 show effective tax rates and wellhead prices over time for Prudhoe Bay, Kuparuk, and Alpine fields.

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Mr. Pulliam discussed projected volumes. Slide 62 shows projected North Slope crude oil production based on the

Department of Revenue's (DOR) 2005 fall forecast. The spring update reduced the aggregate by 30,000 barrels per day lower than what is shown on this graph. It is broken down into three periods because the further out in time, the less is known. The periods are FY 2007-2011, FY 2007-2016, and FY 2007-2030. Without ANWR the volumes from known fields are likely to be about 80 percent of what is available on the North Slope. Prudhoe Bay is the big field or about 45 percent of the projected volumes. Kuparuk added in equals about 65 percent. With the addition of Alpine, the total is about 75 percent of the total projected volumes.

Mr. Pulliam discussed decline rates. The average decline rate is about 3.5 percent per year over the next 24 years. These volumes do not include Point Thompson or Oooguruk.

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Slide 63 shows the change in projected taxes under a 20/20 tax and is a DOR forecast production (FY 2007-2030). There are a number of different production scenarios. He suggested that enhanced volumes are not likely unless ANWR opens. The price shown in the graph is an EIA base forecast where ANS equals about \$53 real average. The slide shows the potential impact of the severance tax in three time periods.

Mr. Pulliam distinguished between real - 2006 dollars - and nominal dollars, which, after inflation, would be higher. The charts all deal in real dollars. The blue area is the first 5 years, and the yellow area is the next five years. He highlighted the statistics in the box in the lower right corner of the slide. He concluded that if the status quo remains in place, the effective tax rate would be 7.1 percent. He noted that taxes are collected on wellhead value. If tax is taken from the PPT and converted to a percentage of wellhead value, it comes to a 12.2 percent PPT effective rate or a 5-percentage point increase from the status quo. He observed that 12 percent is the average rate for the North Slope. He cautioned that forecasting is a necessary exercise, but the further out, the less certain the results.

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Mr. Pulliam referred to the table on slide 64, the change in the projected 20/20 tax under different price levels. The numbers are the same as the prior chart for the first five-year period. The next three columns look at different price levels. The tax collected is lower as prices are lower, but the tax rate drops as well. He reviewed the fixed \$40 ANS price column. He noted that impacts of 5, 10, and 25 years range between a \$330 million increase in taxes to a \$400

million increase per year. With PPT the tax rate would be approximately 10.6 percent. The final three columns look at the breakeven analysis.

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Representative Hawker referred to the fixed column and asked if it refers to \$40 nominal. Mr. Pulliam clarified that it is \$40 "real". In response to a question by Representative Hawker, Mr. Pulliam considered all the scenarios to be relevant.

Mr. Pulliam noted that the final three columns refer to the average price that the old and new systems would produce the same revenues and the same effective tax rates. The price would fall over time because the status quo tax rate falls over time.

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Mr. Pulliam reviewed the table on slide 65, the change in projected taxes under a 20/20 tax with costs increased by 20 percent. He observed that PPT allows a deduction for operating costs and for capital expenditures. It will also give a credit for capital expenditures. If costs are higher, the tax will be lower. He noted that tax rates fall and the breakeven prices rise by approximately \$4 a barrel if costs are higher.

Mr. Pulliam noted that the graph on slide 66 looks at the 25/20 proposal.

Mr. Pulliam referred to slide 67 and noted that it reflects the effective tax rate at different prices and breakeven points. The breakeven price is \$4 a barrel lower with the 25/20 proposal.

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Mr. Pulliam briefly noted slides 68, 69, and 70.

Mr. Pulliam reported that slide 71 reviews changes in the projected taxes under the House Resources CS. Slide 72 shows the changes under the House Resources CS with different price levels. The breakeven prices are very similar to the 20/20 plan because at lower prices the two don't differ much. Slide 73 shows the same information affected by a 20 percent cost increase.

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Mr. Pulliam reviewed the chart on slide 74, the difference in projected taxes between the House Resources CS and a 20/20 tax, using the ANS real price of \$52.70. He observed

that the levels are going to be higher than \$50 and therefore impacted by progressivity. Projections over time show higher nominal prices.

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Representative Hawker referred to earlier charts showing a rise in taxes with the House Resource Committee version containing progressivity. He observed that the HRES version contains a windfall tax based on gross receipts. He suggested that there could be an alternate progressivity mechanism based on margin. He questioned how they would differ.

Mr. Pulliam observed that with progressivity based on margin, the differences would not be as great. There would still be significant differences because of high prices.

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Mr. Pulliam examined the chart on slide 75. He noted that the difference between the plans opens up after 30 years as progressivity "kicks in".

In response to a question by Senator Bunde, Mr. Pulliam explained that 25/20 causes the decline of the rise due to the slope of progressivity. The Senate version kicks in at a lower price level, but has a lower slope. The House version kicks in later but has a steeper slope.

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Mr. Pulliam reviewed slide 76, which depicts the change in projected taxes under the Senate Resources CS.

Mr. Pulliam observed that slide 77 has the same sensitivity at different price levels. Breakeven prices are lower here than under the 20/20 plan by about \$4 per barrel.

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Senator Bunde referred to slide 77 and noted that in the first 5-year period, under the \$33.40 scenario, the effective tax rate is still at 17 percent. Mr. Pulliam observed that high prices (\$50 a barrel) are being projected for the next five years. The \$33.40 reflects the average forecast over the next 24 years. He referred back to slide 10, which shows the EIA forecast. The EIA projects prices over \$40 a barrel.

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Representative Kelly concluded that the \$40 would "provide better behavior" over time. Mr. Pulliam observed that the

\$40 is based on small incremental increases, but the market doesn't generally move in that manner. The EIA is attempting to reflect what the market would do. He suggested that if prices return to \$40, that they would do so in a steep decline.

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Mr. Pulliam turned to slide 78, which is consistent with previous slides.

Mr. Pulliam reported that slide 79 looks at the difference in projected taxes between the Senate Resources CS and a 20/20 tax. The EIA Base Forecast would result in average revenues of about \$700 million.

Slide 80 looks at the difference between the Senate CS and 20/20 at different price levels.

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Representative Kelly asked about the 20 percent price cost increase. Mr. Pulliam replied that the increase is in production costs. Representative Kelly inquired if the costs have been projected into the future. Mr. Pulliam said yes.

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Mr. Pulliam showed slide 81, effective severance tax rates over time. The next several charts build on each other. Tax rate is a function of price. Slide 82 depicts the effective average tax rates at various price levels. It shows the average historical rate of 12 percent, which does not vary with price. Slide 83 shows the addition of the projected status quo for the next ten years at various prices. Slide 84 adds projections for Prudhoe Bay of about 11.6 percent. Slide 85 adds on the 20/20 plan. He noted that operating and capital costs are deducted. The percentage rises as prices rise. Costs are a fixed number and are deductible, which results in the curve.

Mr. Pulliam addressed the breakeven price in the graph. As prices rise, the impact of the deduction for operating costs and the credit is smaller. These are 2006 prices. The kink in the graph is at \$40, and is the impact of the transition credit in the governor's plan to recoup the last five years' capital costs. As the \$40 line is crossed there is a reduction in the effective tax rate.

Slide 86 is a comparison with 25/20, and it has the same kink as in the previous slide. The historical average is at \$33. Slide 87 adds the House Resources CS, which is about equal to 20/20 until \$40. It has no kink because it does

not have the transition payment, but it has progressivity. Slide 88 depicts the Senate Resources CS line. It starts out with a lower tax rate because it has a transition plan, or 2-for-1 credit. It rises above all of the other plans.

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Slide 89 compares the House CS and the Senate CS plans. The lines move toward each other after time because the progressivity feature impacts both plans. He addressed the validity of the volume projection by the DOR. He maintained that there would have to be a lot more investment for that to happen. Slide 90 looks at the impact of increased investment on the various plans. PPT would reduce the effective tax rate considerably by about 4 percentage points. Under the 20/20 plan, if \$2.5 billion is invested at a \$40 price rate, the effective tax rate would be reduced quite a bit to that of the projected status quo.

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Slide 91 shows projected government take under the different plans, at various price levels.

Representative Kelly asked about the increase in investment and the decline of oil. Mr. Pulliam said he does not know if revenues would be higher. Representative Kelly asked about the 6-well scenario and the ability to predict the state's take. Mr. Pulliam noted these slides deal with investment in existing fields. Exploration is a different experience. Representative Kelly requested information on the sensitivity of exploration.

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Mr. Pulliam returned to slide 91 and government take. The statistics look at net revenues divided between the government and the industry after costs are removed.

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Mr. Pulliam's final topic dealt with progressivity issues as listed on slide 92: choice of threshold price, WTI vs. ANS, real vs. nominal, deductibility, and cap. He pointed out that both plans use a threshold price; the House uses WTI \$50 per barrel and the Senate uses ANS \$40. He said that WTI is a good benchmark and he is not concerned with the difference between WTI and ANS. DNR and DOR feel that both prices are representative. A threshold price that moves back to the North Slope could be used.

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Slide 93 shows Platt's WTI and ANS prices since 1996. The numbers move together for the most part. In only one year, the difference was greater than more than \$1, and less than \$3. He said he has no concern about WTI.

Mr. Pulliam spoke about the issue of real vs. nominal dollars. Both CS's use nominal dollars. He deemed it appropriate to include an indexing system. DOR will be collecting cost information and they could calculate the change in the cost of transportation from year to year.

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Mr. Pulliam addressed deductibility. Both CS's allow for the deductibility of the progressive portion of the tax, which is the tax based on wellhead value. He said that is appropriate.

Mr. Pulliam spoke about the cap. Slide 94 shows the progressive portion of the tax rate in the House Resources CS and potential alternatives at various price levels. He said the jump at 18 percent seems inappropriate. If the goal is to cap out the rate at 37 percent, it should be allowed to rise until it hits that amount. He suggested that the Senate plan have a cap.

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Representative Kerttula asked why limit the ability to progress. Mr. Pulliam suggested it could progress at a diminishing increment. Representative Kerttula asked if a model could be made to depict that. Mr. Pulliam said that could be done.

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Senator Wilken referred to slide 91 and said he is struck by the minimal changes when moving between categories. He expected it to be more. He looked at Alaska's take and the original tax regime. He inquired if the table were shown to producers, if there would be agreement. Mr. Pulliam said there should be no argument - maybe different estimates of cost. He addressed the first statement as a piece of the puzzle. He pointed out that the severance tax is deductible.

Senator Wilken related a suggestion that could cause a 20 percent change in investment. He wondered if the changes on 91 were enough to drive significant investment.

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Co-Chair Meyer noted there is plenty of heavy oil. He inquired if the 20/20 would be enough investment to go after

the heavy oil. Mr. Pulliam said it depends on price. Co-Chair Meyer asked about the \$45 price and the need to attract investment. Dr. Finizza suggested not categorizing it by heavy oil. At \$45 it should not be a problem.

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Senator Wilken asked about progressivity and the incremental rate as a fraction of the market rate. He wondered about the cost to lift a barrel. Mr. Pulliam stated if it jumps from \$40 to \$60, it will cost about the same to lift a barrel. Senator Wilken asked for a rule of thumb. Mr. Pulliam said he would think about that. In the context of progressivity, he suggested that the committee consider building in a feature that would index it with rising prices.

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Dr. Finizza added that there may be a rule that he could research.

Representative Holm wondered about phasing out incentives at lower prices. Dr. Finizza related that one idea is to reduce tax on the first "so many" barrels of production. Mr. Pulliam added that a tax holiday is another mechanism.

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Senator Bunde referred to Slides 63, 66, 71, and 74. On 74 there is a huge decline beginning in 2012 in the House Resources CS at the base of 20/20. Mr. Pulliam clarified that it is the decline in the difference between the House Resources CS and the 20/20. Senator Bunde asked if slide 63 is the same. Mr. Pulliam said yes.

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

#### ADJOURNMENT

The meeting was adjourned at 3:57 PM.